

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Clare County Road Commission	County Clare
Fiscal Year End 9/30/06	Opinion Date 1/17/07	Date Audit Report Submitted to State 2/26/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, CPA		Telephone Number 989-563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Sign: 	Printed Name James M. Anderson, CPA		License Number 1101017419	

Digitally signed by James M. Anderson, CPA
DN: cn=James M. Anderson, CPA, c=US,
o=James M. Anderson, P.C.,
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Date: 2007.02.26 08:52:25 -0500

**CLARE COUNTY ROAD COMMISSION
FINANCIAL REPORT
SEPTEMBER 30, 2006**

CLARE COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Donald Armentrout
Commissioner

Richard Haynak
Commissioner

Tim Haskin
Commissioner

Steven R. Stocking
Engineer-Manager

Chad M. Hathcock
Finance Director

Kathy Duynslager
Board Secretary

CLARE COUNTY ROAD COMMISSION

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

January 17, 2007

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

I have audited the accompanying financial statements of the governmental activities and major fund of the Clare County Road Commission, a component unit of the County of Clare, Michigan as of and for the year ended September 30, 2006, which collectively comprise the Road commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Clare County Road Commission as of September 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 17, 2007, on my consideration of the Clare County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

MEMBER MACPA and AICPA

The management's discussion and analysis on pages 3 to 8 and budgetary comparisons on pages 28 and 29 are not a required part of the basic financial statements, but are supplementary information required by Accounting Principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Clare County Road commission's basic financial statements. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Clare County Road Commission. The other information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "J M Anderson", written in dark ink.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

Our discussion and analysis of Clare County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the road Commission:

The first statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE ROAD COMMISSION AS A WHOLE

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the road commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The road commission currently has only one fund, the general operations fund. All of the road commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the road commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The road commission's net assets increased 2.73% from \$27,036,016 to \$27,775,159 as of September 30, 2006. The net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

The investment in capital assets, net of related debt, was \$25,638,313 at September 30, 2005 and \$26,674,491 as of September 30, 2006. The increase in net assets is primarily the result of capitalizing infrastructure of \$2,211,920 and equipment purchases. The restricted net assets decreased by \$297,035 during the current year.

Net assets as of year ended September 30, 2006 and September 30, 2005.

	<u>9/30/06</u>	<u>9/30/05</u>	<u>Increase/ Decrease</u>
Current and Other Assets	\$ 1,794,998	\$ 2,106,741	\$ (311,743)
Capital Assets (Net)	<u>27,410,028</u>	<u>26,776,946</u>	<u>633,082</u>
Total Assets	<u>29,205,026</u>	<u>28,883,687</u>	<u>321,339</u>
Long-Term Debt Outstanding	583,502	910,362	(326,860)
Other Liabilities	<u>846,365</u>	<u>937,309</u>	<u>(90,944)</u>
Total Liabilities	<u>1,429,867</u>	<u>1,847,671</u>	<u>(417,804)</u>
Net Assets			
Invested in Capital Assets Net of Related Debt	26,674,491	25,638,313	1,036,178
Restricted	<u>1,100,668</u>	<u>1,397,703</u>	<u>(297,035)</u>
Total Net Assets	<u>\$27,775,159</u>	<u>\$27,036,016</u>	<u>\$ 739,143</u>

Changes in Net Assets

A summary of changes in net assets follows:

	<u>9/30/06</u>	<u>9/30/05</u>	<u>Increase/ Decrease</u>
Revenues			
Federal Grants	\$ 32,770	\$ 626,891	\$ (594,121)
State Grants	3,783,608	3,874,106	(90,498)
Contributions from Local Units	1,493,007	1,474,499	18,508
Charges for Services	792,582	1,017,265	(224,683)
Interest and Rents	34,069	23,900	10,169
Gain on Equipment Disposal	<u>257,307</u>	<u>-0-</u>	<u>257,307</u>
Total Program Revenue	<u>6,393,343</u>	<u>7,016,661</u>	<u>(623,318)</u>
Expenditures			
Public Works	5,599,506	5,348,504	251,002
Interest Expense	<u>54,694</u>	<u>72,211</u>	<u>(17,517)</u>
Total Expenditures	<u>5,654,200</u>	<u>5,420,715</u>	<u>233,485</u>
Increase (Decrease) in Net Assets	<u>\$ 739,143</u>	<u>\$ 1,595,946</u>	<u>\$ (856,803)</u>

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

The Road commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in the Operating Fund is as follows:

	<u>9/30/06</u>	<u>9/30/05</u>	<u>Increase/ Decrease</u>
Revenues			
Federal Grants	\$ 32,770	\$ 626,891	\$ (594,121)
State Grants	3,783,608	3,874,106	(90,498)
Contributions from Local Units	1,493,007	1,474,499	18,508
Charges for Services	762,287	1,009,546	(247,259)
Interest and Rents	34,069	23,900	10,169
Other Revenue	30,295	7,719	22,576
Gain on Equipment Disposal	257,307	-0-	257,307
Total Program Revenue	<u>6,393,343</u>	<u>7,016,661</u>	<u>(623,318)</u>
Expenditures			
Public Works	6,007,273	6,864,397	(857,124)
Net Capital Outlay	198,163	14,149	184,014
Debt Service	457,790	474,450	(16,660)
Total Expenditures	<u>6,663,226</u>	<u>7,352,996</u>	<u>(689,770)</u>
Excess of Revenues Over (Under) Expenditures	(269,883)	(336,335)	66,452
Fund Balance - October 1	<u>1,572,528</u>	<u>1,908,863</u>	<u>(336,335)</u>
Fund Balance - September 30	<u>\$ 1,302,645</u>	<u>\$ 1,572,528</u>	<u>\$ (269,883)</u>

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$321,000 higher than the original budget primarily due to an expected increase in Federal projected revenue.

The final amended expenditure budget for 2006 was \$332,000 higher than the original budget primarily due to an increase in heavy maintenance and an increase in state trunk line maintenance. The actual expenditures incurred during 2006 were more than the final amended budget by \$207,226. There were five unfavorable variance in expenditure line items.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

Capital Assets

As of the respective year ends, the road commission had invested the following in net capital assets:

	<u>9/30/06</u>	<u>9/30/05</u>	<u>Increase/ Decrease</u>
Capital assets not being depreciated:			
Land and improvements	\$ 187,883	\$ 175,220	\$ 12,663
Subtotal	<u>187,883</u>	<u>175,220</u>	<u>12,663</u>
Capital assets being depreciated:			
Buildings	1,090,959	991,262	99,697
Equipment - Road	5,656,604	5,677,483	(20,879)
Equipment - Shop	126,030	122,097	3,933
Equipment - Office	99,494	97,796	1,698
Equipment - Engineering	39,177	34,850	4,327
Equipment - Yard & Storage	102,663	102,663	-0-
Infrastructure - Bridges	5,729,084	5,729,084	-0-
Infrastructure - Roads	<u>35,512,928</u>	<u>33,301,008</u>	<u>2,211,920</u>
Subtotal	<u>48,356,939</u>	<u>46,056,243</u>	<u>2,300,696</u>
Total Capital Assets	<u>48,544,822</u>	<u>46,231,463</u>	<u>2,313,359</u>
Total Accumulated Depreciation	<u>21,134,794</u>	<u>19,454,517</u>	<u>1,680,277</u>
Total Net Capital Assets	<u>\$27,410,028</u>	<u>\$26,776,946</u>	<u>\$ 633,082</u>
Debt related to capital assets - bonds and installment note		<u>\$ 735,537</u>	

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$2,211,920. The infrastructure recorded, during 2006 will be depreciated in the following years. The infrastructure is financed through Federal, State and local contributions.

Debt

At the year end, the road commission had \$650,000 in bonds, and \$85,537 in installment notes payable totaling \$745,537. This represents a decrease of \$403,096 from 2005. The bonds are payable over a four year period with a final payment due August 1, 2010. The installment note is scheduled to be paid in full in 2011. Other long-term debt is accrued vacation and sick pay leave.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

Economic Factors and Next Year's Budget

The Road Commission as a Whole - Revenues were down 8% in 2006 compared to the prior year due to a decrease in the Michigan Transportation Funds. Expenditures were down 10% due to budgeting for lower revenue. For 2007, a modest 1% increase in the Michigan Transportation Fund is forecasted. Township contributions on construction will be minimal due to the road commission not having the funds to match townships on road projects.

Federal and State Funded Road Projects - The road commission will start construction on Clare Avenue from Colonville to Beaverton Road. The Clare Avenue road project in 2007 will be using Federal STP, Federal D, and State TEDF-D funds earmarked for roads functionally classified as rural major collectors. Safety Funds are also going to be used at the Clare Avenue/Surrey Road intersection. The Muskegon Road Bridge will be replaced using Critical Bridge Funds.

Township Contributions - During 2006 the road commission received township contributions totaling over \$1,400,000. The Road Commission used the contributions as matching funds for various road projects throughout the county. Major projects were Maple Grove Road in Garfield Township; and West Shingle Lake Drive in Lincoln Township. There were also numerous pavement overlay projects done throughout the county.

Capital Assets - The Road Commission invested \$756,000 in capital assets during 2006, which included two graders, a loader and a new time clock.

Next Year's Forecast - During 2007 the Road Commission plans to: maintain 133 miles of state trunkline road, a construction schedule of \$4.2 million, purchase two pick-ups, one new loader and other equipment to keep its fleet up to date, and maintain the 1,010 miles of primary and local county roads. Expenses are expected to outpace revenue due to inflation, health care & pension increases, and high energy costs. In anticipation, the road commission has instituted a hiring freeze, delayed purchases of equipment, cut-back road maintenance programs, and eliminated several local road construction projects.

Closing

This financial report is intended to provide our citizens, taxpayers and the general public with a general overview of the road commission's finances and how they are being spent.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS

Cash	\$ 357,832
Investments	85,436
Accounts receivable	
Michigan Transportation Fund	600,888
State - Trunkline maintenance	42,750
Due on County Road Agreements	435,638
Sundry Accounts	3,665
Inventories	
Road Materials	97,018
Equipment Parts and Materials	171,771
Capital Assets (Net of Accumulated Depreciation)	<u>27,410,028</u>
Total Assets	<u>29,205,026</u>

LIABILITIES

Current Liabilities:	
Accounts payable	192,096
Accrued liabilities	22,473
Advances from MDOT	277,784
Bonds Payable	340,000
Installment Purchase Agreements Payable	14,012
Non Current Liabilities:	
Bonds Payable	310,000
Installment Purchase Agreements Payable	71,525
Vested Employee Benefits Payable	<u>201,977</u>
Total Liabilities	<u>1,429,867</u>

NET ASSETS

Investment in Capital Fixes Assets	
Net of Related Debt	26,674,491
Restricted for County Roads	<u>1,100,668</u>
Total Net Assets	<u>\$ 27,775,159</u>

The accompanying notes are an integral part of these financial statements.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Program Expenses	
Primary Road Maintenance	\$ 708,313
Local Road Maintenance	1,943,307
State Trunkline Maintenance	740,027
Net Equipment Expense	125,861
Net Administrative Expense	277,845
Infrastructure Depreciation	1,777,001
Compensated Absences	27,152
Interest Expense	<u>54,694</u>
Total Program Expenses	<u>5,654,200</u>
Program Revenue	
Federal Grants	32,770
State Grants	3,783,608
Contributions from Local Units	1,493,007
Charges for Services	792,582
Investment Earnings	<u>34,069</u>
Total Program Revenue	<u>6,136,036</u>
Net Program Revenue	<u>481,836</u>
General Revenue	
Gain on Equipment Disposal	<u>257,307</u>
Total General Revenues	<u>257,307</u>
Change in Net Assets	739,143
Net Assets	
Beginning of Year	<u>27,036,016</u>
End of Year	<u><u>\$ 27,775,159</u></u>

The accompany notes are an integral part of these financial statements.

CLARE COUNTY ROAD COMMISSION
BALANCE SHEET
SEPTEMBER 30, 2006

	<u>Governmental Fund Type</u>
	<u>General Operating</u>
ASSETS	
Imprest cash	\$ 250
Cash demand and time deposits	357,582
Investments	85,436
Accounts receivable:	
Due from state	643,638
Due from townships	435,638
Sundry	3,665
Inventories	<u>268,789</u>
Total Assets	<u>\$ 1,794,998</u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 192,096
Accrued liabilities	22,473
Advances from governmental units	<u>277,784</u>
Total Liabilities	<u>492,353</u>
Fund Equity:	
Fund Balance:	
Undesignated	<u>1,302,645</u>
Total Fund Equity	<u>1,302,645</u>
Total Liabilities and Fund Equity	<u>\$ 1,794,998</u>

The accompanying notes are an integral part of these financial statements.

CLARE COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total governmental fund balance	\$ 1,302,645
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Amounts reported for governmental activities in
the statement of new assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,410,028
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(937,514)</u>
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Net assets of governmental activities	<u><u>\$ 27,775,159</u></u>
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The accompanying notes are an integral part of these financial statements.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
SEPTEMBER 30, 2006

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 32,770
State Grants	3,783,608
Contributions From Local Units	1,493,007
Charges for Services	762,287
Interest and Rents	34,069
Other Revenue	<u>287,602</u>
Total Revenues	<u>6,393,343</u>
Expenditures	
Public Works	6,007,273
Net Capital Outlay	198,163
Debt Service	<u>457,790</u>
Total Expenditures	<u>6,663,226</u>
Excess of Revenues Over (Under) Expenditures	(269,883)
Fund Balance-October 1, 2005	<u>1,572,528</u>
Fund Balance-September 30, 2006	<u><u>\$ 1,302,645</u></u>

The accompanying notes are an integral part of these financial statements.

CLARE COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net Change in fund balance-total governmental funds \$ (269,883)

Amounts reported for governmental activities
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. 633,082

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. 403,096

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense). (27,152)

Change in net assets of governmental activities. \$ 739,143

The accompanying notes are an integral part of these financial statements.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clare County Road Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

REPORTING ENTITY AND FUND TYPE - The County Road Commission's financial activity is considered a Governmental Special Revenue Fund Type and a reporting agency of Clare County in accordance with the established criteria in Statement No. 14, "The Financial Reporting Entity", issued by the Governmental Accounting Standards Board.

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the Clare County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

INVENTORY

Inventories consisting of equipment parts and supplies of \$171,771 and road materials of \$97,018, are stated at cost based on the first in - first out (FIFO) method. Inventory items are charged to equipment repairs and operations, and to road construction and maintenance as used.

PRE-PAID EXPENSES

Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Clare County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the forth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Clare County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTES A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

DEPRECIATION

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12-50 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETS AND BUDGETARY ACCOUNTING

The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE B - CASH AND INVESTMENTS

Michigan compiled Laws 129.91, authorizes the Road Commission to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Imprest Cash	\$ 250
Cash demand and time deposits	357,582
Investments	<u>85,436</u>
Total	<u>\$ 443,268</u>

Deposits

At year-end the carrying amount of the County Road Commissions deposits were \$357,582 and the bank balance was \$397,748. According to the Federal Deposit Insurance Corporation, approximately 37% of the total bank balance was covered by federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to municipal money markets.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of September 30, 2006, the Road Commission had the following investments:

	<u>Reported Amount (Fair Value)</u>
Investments	
Municipal Investment Fund	<u>\$ 85,436</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual fund does not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amounts that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 10/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/06</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 175,220	\$ 12,663	\$ -0-	\$ 187,883
Subtotal	<u>175,220</u>	<u>12,663</u>	<u>-0-</u>	<u>187,883</u>
Capital Assets Being Depreciated:				
Buildings	991,262	99,697	-0-	1,090,959
Road Equipment	5,677,483	634,143	655,022	5,656,604
Shop Equipment	122,097	3,933	-0-	126,030
Office Equipment	97,796	1,698	-0-	99,494
Engineers Equipment	34,850	4,327	-0-	39,177
Yard & Storage Equipment	102,663	-0-	-0-	102,663
Infrastructure-Bridges	5,729,084	-0-	-0-	5,729,084
Infrastructure-Roads	<u>33,301,008</u>	<u>2,211,920</u>	<u>-0-</u>	<u>35,512,928</u>
Total	<u>46,056,243</u>	<u>2,955,718</u>	<u>655,022</u>	<u>48,356,939</u>
Less Accumulated Depreciation:				
Buildings	654,062	37,459	-0-	691,521
Road Equipment	4,514,442	440,833	597,759	4,357,516
Shop Equipment	95,260	6,046	-0-	101,306
Office Equipment	69,597	8,689	-0-	78,286
Engineers Equipment	22,887	2,049	-0-	24,936
Yard & Storage Equipment	55,681	5,959	-0-	61,640
Infrastructure-Bridges	1,620,749	137,108	-0-	1,757,857
Infrastructure-Roads	<u>12,421,839</u>	<u>1,639,893</u>	<u>-0-</u>	<u>14,061,732</u>
Total	<u>19,454,517</u>	<u>2,278,036</u>	<u>597,759</u>	<u>21,134,794</u>
Net Capital Assets Being Depreciated	<u>26,601,726</u>	<u>677,682</u>	<u>57,263</u>	<u>27,222,145</u>
Total Net Capital Assets	<u>\$26,776,946</u>	<u>\$ 690,345</u>	<u>\$ 57,263</u>	<u>\$27,410,028</u>

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE D - PENSION PLAN

Plan Description - The Clare County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All full time Road Commission employees are eligible to participate in the system. Benefits vest after ten year of service. Employees who retire at or after age 55 with 30 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Participating County Road employees are required to contribute 5.0 percent of their annual salary to the system. The County Road is required to contribute the remaining amounts necessary to fund the Michigan Municipal Employee Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/05)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 5,209,000
Terminated employees not yet receiving benefits	165,326
Non-vested terminated employees	173
Current Employees:	
Accumulated employee contributions including allocated investment income	706,295
Employer financed	<u>2,284,557</u>
Total actuarial accrued liability	8,365,351
Net assets available for benefits, at actuarial value (Market value is \$7,489,397)	<u>7,692,090</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 673,261</u>

GASB 27 INFORMATION (as of 12/31/05)

Fiscal year beginning	January 1, 2007
Annual required contribution (RC)	\$ 123,252
Amortization factor used - Underfunded Liabilities (30 years)	0.053632
Amortization factor used - Overfunded Liabilities (10 years)	0.119963

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE D - PENSION PLAN (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 52,644	100%	\$ -0-
2004	110,880	100%	-0-
2005	123,252	100%	-0-

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2003	\$7,519,456	\$7,536,470	\$ 17,014	100%	\$1,234,382	1%
2004	7,650,590	8,159,102	508,512	94%	1,279,896	40%
2005	7,692,090	8,365,351	673,261	92%	1,307,116	52%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

	Balance 10/1/05	Additions	Reductions	Balance 09/30/06
General obligation bonds payable	\$ 1,040,000	\$ -0-	\$ 390,000	\$ 650,000
Installment note payable	98,633	-0-	13,096	85,537
Compensated Absences	174,825	(1) 27,152	-0-	201,977
	<u>\$ 1,313,458</u>	<u>\$ 27,152</u>	<u>\$ 403,096</u>	<u>\$ 937,514</u>

(1) The change in compensated absences is shown as a net addition.

The general obligation bonds payable is made up of bonds issued on July 24, 1996, June 1, 1998, September 16, 1999, October 4, 2000, and April 1, 2002 under Act 143 for the purpose of defraying the costs of several road projects. The bonds were issued in denominations of \$5,000 with rates varying from 4.1 to 7.625%. The bonds mature in \$50,000 increments annually over a 10 year period.

The installment notes payable was entered into on July 10, 2002, for the purchase of land. Principal payments of \$20,000 a year are being made with an interest rate of 7% until it is paid off.

Annual Debt Service Requirements:

<u>Year</u>	<u>Amount</u>
2007	\$ 390,440
2008	215,235
2009	116,535
2010	62,000
2011	<u>24,955</u>
Total Payments	809,165
Less Interest & Fees	<u>(73,628)</u>
Net Balance Due	<u>\$ 735,537</u>

CLARE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE G - VESTED EMPLOYEE BENEFITS

County Road employees, after six months of service, are credited with 8 hours vacation leave per month, and an additional two to seven days based on years of service exceeding four years. Unused vacation leave is carried forward to the next year but leave time in excess of 240 hours is forfeited. Vacation leave for 2006 amounted to \$71,130.

County Road post-1987 employees earn four hours sick leave per month, and pre-1987 employees earn 8 hours a month. All employees are paid annually for accumulated leave in excess of 360 hours. Upon termination, the accumulated sick leave is paid in full. Sick leave for 2006 amounted to \$130,847.

NOTE H - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the twelve months ended September 30, 2006 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Local Road:			
Heavy Maintenance	\$ 550,000	\$ 1,347,552	\$ (797,552)
Maintenance	\$ 1,710,000	\$ 1,943,307	\$ (233,307)
State Trunkline			
Non-maintenance	\$ -0-	\$ 46,336	\$ (46,336)
Equipment Expense - Net	\$ (50,000)	\$ 125,861	\$ (175,861)
Long Term Debt	\$ 400,000	\$ 403,096	\$ (3,096)

The Road Commission does not use encumbrances for budgetary purposes. During the twelve months ended September 30, 2006, the Road Commissioners made one amendment to the General Operating Fund Budget.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE I - RISK MANAGEMENT

Clare County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Clare Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During the twelve months ended September 30, 2006, and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE J - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note D, the Road Commission provides post retirement health care benefits to all employees who retire from the Road Commission on or after attaining age 60 with 10 or more years of service; or, those who retire under a valid disability claim who have reached the age 60. The health care benefits consist of the Road Commission paying the monthly health insurance until the recipient reaches the age of 65. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For the twelve months ended September 30, 2006, those costs totaled \$53,089.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE K - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal aid secondary revenue of \$32,770 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors paid for and administered by the Michigan Department of Transportation.

REQUIRED SUPPLEMENTAL INFORMATION

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES- BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Michigan Transportation Funds:				
Engineering	\$ 10,000	\$ 10,000	\$ 10,000	\$ -0-
Primary road	2,520,000	2,528,000	2,155,553	(372,447)
Local road	1,222,000	1,202,000	1,545,016	343,016
Snow removal	2,000	2,000	2,647	647
Critical Bridge	<u>-0-</u>	<u>55,000</u>	<u>-0-</u>	<u>(55,000)</u>
Subtotal	<u>3,754,000</u>	<u>3,797,000</u>	<u>3,713,216</u>	<u>(83,784)</u>
Federal Aid:				
Federal aid secondary	<u>-0-</u>	<u>300,000</u>	<u>32,770</u>	<u>(267,230)</u>
Subtotal	<u>-0-</u>	<u>300,000</u>	<u>32,770</u>	<u>(267,230)</u>
State Trunkline Maintenance	900,000	840,000	716,303	(123,697)
State Trunkline Non-Maintenance	-0-	-0-	45,984	45,984
State Forest Road Funds	70,000	70,000	70,392	392
County Raised Funds:				
Township contributions and other contributions	1,100,000	1,238,000	1,493,007	255,007
Other Revenue:				
Gain (Loss) on Sale of Equipment	-0-	-0-	257,307	257,307
Interest, Salvage Sales and Permits	<u>300,000</u>	<u>200,000</u>	<u>64,364</u>	<u>(135,636)</u>
Total Revenue	<u>\$6,124,000</u>	<u>\$6,445,000</u>	<u>\$6,393,343</u>	<u>\$ (51,657)</u>

CLARE COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES - BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 1,200,000	\$ 1,500,000	\$ 864,368	\$ 635,632
Maintenance	760,000	720,000	708,313	11,687
Local Road:				
Heavy maintenance	800,000	550,000	1,347,552	(797,552)
Maintenance	<u>1,710,000</u>	<u>1,710,000</u>	<u>1,943,307</u>	<u>(233,307)</u>
Subtotal	<u>4,470,000</u>	<u>4,480,000</u>	<u>4,863,540</u>	<u>(383,540)</u>
State Trunkline Maintenance	<u>800,000</u>	<u>850,000</u>	<u>693,691</u>	<u>156,309</u>
State Trunkline Non-Maintenance	<u>-0-</u>	<u>-0-</u>	<u>46,336</u>	<u>(46,336)</u>
Equipment Expense - Net:				
Direct	900,000	850,000	850,099	(99)
Indirect	300,000	325,000	562,983	(237,983)
Operating	300,000	375,000	431,247	(56,247)
Less:				
Equipment Rental	<u>(1,600,000)</u>	<u>(1,600,000)</u>	<u>(1,718,468)</u>	<u>118,468</u>
Subtotal	<u>(100,000)</u>	<u>(50,000)</u>	<u>125,861</u>	<u>(175,861)</u>
Administrative Expense - Net:				
Administrative expense	350,000	447,000	355,503	91,497
Less:				
Overhead - State trunkline	(70,000)	(75,000)	(76,754)	1,754
Purchase discounts and Handling Charges	<u>(6,000)</u>	<u>(6,000)</u>	<u>(904)</u>	<u>(5,096)</u>
Subtotal	<u>274,000</u>	<u>366,000</u>	<u>277,845</u>	<u>88,155</u>
Capital Outlay - Net:				
Capital Outlay	500,000	820,000	756,461	63,539
Less:				
Equipment Retirements	-0-	-0-	(57,263)	57,263
Depreciation	<u>(310,000)</u>	<u>(500,000)</u>	<u>(501,035)</u>	<u>1,035</u>
Subtotal	<u>190,000</u>	<u>320,000</u>	<u>198,163</u>	<u>121,837</u>
Long Term Debt Payment	<u>400,000</u>	<u>400,000</u>	<u>403,096</u>	<u>(3,096)</u>
Interest Expense	<u>90,000</u>	<u>90,000</u>	<u>54,694</u>	<u>35,306</u>
Total Expenditures	<u>\$ 6,124,000</u>	<u>\$ 6,456,000</u>	<u>\$ 6,663,226</u>	<u>\$ (207,226)</u>

SUPPLEMENTAL SCHEDULES

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 2,631,039	\$ 2,695,721	\$ 1,066,583	\$6,393,343
Total Expenditures	<u>2,145,991</u>	<u>3,557,825</u>	<u>959,410</u>	<u>6,663,226</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	485,048	(862,104)	107,173	(269,883)
Optional Transfers	<u>(485,048)</u>	<u>485,048</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	-0-	(377,056)	107,173	(269,883)
Fund Balance-October 1	<u>235,454</u>	<u>539,462</u>	<u>797,612</u>	<u>1,572,528</u>
Fund Balance-September 30	<u>\$ 235,454</u>	<u>\$ 162,406</u>	<u>\$ 904,785</u>	<u>\$1,302,645</u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2006

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Motor Vehicle Highway Funds:				
Engineering	\$ 5,000	\$ 5,000	\$ -0-	\$ 10,000
Primary road	2,155,553	-0-	-0-	2,155,553
Local road	-0-	1,545,016	-0-	1,545,016
Snow removal	2,647	-0-	-0-	2,647
Subtotal	<u>2,163,200</u>	<u>1,550,016</u>	<u>-0-</u>	<u>3,713,216</u>
Federal Aid:				
Federal Aid Secondary	<u>32,770</u>	<u>-0-</u>	<u>-0-</u>	<u>32,770</u>
Subtotal	<u>32,770</u>	<u>-0-</u>	<u>-0-</u>	<u>32,770</u>
State Trunkline Maintenance	-0-	-0-	716,303	716,303
State Trunkline Non-Maintenance	-0-	-0-	45,984	45,984
State Forest Road Funds	70,392	-0-	-0-	70,392
County Raised Funds:				
Township contributions and other contributions	364,677	1,128,330	-0-	1,493,007
Other Revenue:				
Gain (Loss) on sale of Equipment	-0-	-0-	257,307	257,307
Interest, Salvage Sales and Refunds	<u>-0-</u>	<u>17,375</u>	<u>46,989</u>	<u>64,364</u>
Total Revenue	<u>\$ 2,631,039</u>	<u>\$ 2,695,721</u>	<u>\$ 1,066,583</u>	<u>\$ 6,393,343</u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2006

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 864,368	\$ -0-	\$ -0-	\$ 864,368
Maintenance	708,313	-0-	-0-	708,313
Local Road:				
Heavy maintenance	-0-	1,347,552	-0-	1,347,552
Maintenance	-0-	1,943,307	-0-	1,943,307
Subtotal	<u>1,572,681</u>	<u>3,290,859</u>	<u>-0-</u>	<u>4,863,540</u>
State Trunkline Maintenance	<u>-0-</u>	<u>-0-</u>	<u>693,691</u>	<u>693,691</u>
State Trunkline Non-Maintenance	<u>-0-</u>	<u>-0-</u>	<u>46,336</u>	<u>46,336</u>
Equipment Expense - Net:				
Direct	173,423	533,351	143,325	850,099
Indirect	114,850	353,215	94,918	562,983
Operating	87,976	270,564	72,707	431,247
Less:				
Equipment Rental	<u>(350,573)</u>	<u>(1,078,165)</u>	<u>(289,730)</u>	<u>(1,718,468)</u>
Subtotal	<u>25,676</u>	<u>78,965</u>	<u>21,220</u>	<u>125,861</u>
Administrative Expense - Net:				
Administrative expense	114,955	240,548	-0-	355,503
Less:				
Overhead - State trunkline	(24,819)	(51,935)	-0-	(76,754)
Purchase discounts and Handling charges	<u>(292)</u>	<u>(612)</u>	<u>-0-</u>	<u>(904)</u>
Subtotal	<u>89,844</u>	<u>188,001</u>	<u>-0-</u>	<u>277,845</u>
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	756,461	756,461
Less:				
Equipment Retirements	-0-	-0-	(57,263)	(57,263)
Depreciation	<u>-0-</u>	<u>-0-</u>	<u>(501,035)</u>	<u>(501,035)</u>
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>198,163</u>	<u>198,163</u>
Long Term Debt Payment	<u>403,096</u>	<u>-0-</u>	<u>-0-</u>	<u>403,096</u>
Interest Expense	<u>54,694</u>	<u>-0-</u>	<u>-0-</u>	<u>54,694</u>
Total Expenditures	<u>\$ 2,145,991</u>	<u>\$ 3,557,825</u>	<u>\$ 959,410</u>	<u>\$6,663,226</u>



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

January 17, 2007

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

I have audited the component unit financial statements of the governmental activities and major fund of the Clare County Road Commission, a Special Revenue Fund of the County of Clare, Michigan, as of and for the twelve months ended September 30, 2006, and have issued my report thereon dated January 17, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

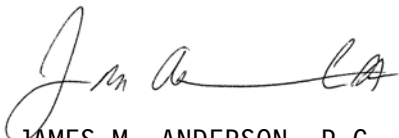
In planning and performing my audit, I considered the Clare County Road Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of Clare County Road Commission in a separate letter dated January 17, 2007.

MEMBER MACPA and AICPA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clare County Road Commission's component unit financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read 'J M Anderson', with a stylized flourish at the end.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

**CLARE COUNTY ROAD COMMISSION
REPORT TO MANAGEMENT
SEPTEMBER 30, 2006**



James M. Anderson, P.C.

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January 17, 2007

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

In planning and performing my audit of the financial statements of the Clare County Road Commission as of and for the year ended September 30, 2006, I considered the Road Commissions accounting, operational, and internal control procedures to determine the nature and extent of my audit testing for the purpose of expressing an opinion on the financial statements of the Road Commission and not to provide assurance on the procedures themselves.

I did however, during the course of my audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated January 17, 2007 on the financial statements of the Clare County Road Commission.

I have already discussed these comments and suggestions with the Clare County Road Commission personnel, and I will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.

A handwritten signature in dark ink, appearing to read "J M Anderson", followed by a stylized "CA" or similar initials.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

BLUE CROSS REIMBURSEMENTS

Currently, reimbursements for blue cross are billed on a hand ledger system which is not reflected on the general ledger until the actual payment is received. I recommend that the billing and related accounts receivable be maintained on the computerized accounting system. This will allow for an accurate and up to date reporting and create a better internal control governing the activity.

CHECK ENDORSEMENTS

A signature stamp of the Finance Director's signature is used by the Board Secretary to endorse checks. Since she is already an authorized signature for the account, I recommend that she personally sign the checks or obtain her own signature stamp and the Finance Director maintain control of his own stamp. The stamps should be secured by each individual signer. In addition, blank check stock should be kept in a secure area with access only by authorized personnel.